



STAFF REPORT

Resolution of the City Council of the City of Belmont, Acting as the Legislative Body of Community Facilities District No. 2000-1 of the City of Belmont, Stating its Intention to Issue Bonds and Authorizing the Issuance of its Special Tax Bonds (Library Project), Series 2004A, in an Aggregate Principal Amount not to Exceed \$8,650,000 and Approving Certain Documents and Taking Certain Other Actions in Connection Therewith.

December 9, 2003

Honorable Mayor and Council Members:

Summary:

Pursuant to City Council's direction on July 22nd and the project work plan, this report includes a resolution necessary to authorize the issuance of \$8.65 million in debt obligations to finance construction for a new public library.

After hearing testimony, and giving consideration to the facts presented, City Council is asked to adopt the resolution as prepared. Adoption of the resolution will authorize the issuance of the bonds with a scheduled close date of January 14, 2004.

Background and Discussion:

City Council Direction

On December 12, 2000, the Council established the Belmont Library Community Facilities District, authorized the levy of a special tax and called an election for March 6, 2001 on the proposition of levying a special tax and authorizing the sale of bonds in a principal amount not to exceed \$8,650,000 for the construction of the library.

On March 27, 2001, the Council certified the results of the March 6, 2001 election, which showed that 78% of the vote's casts were in favor of the proposition.

On July 22, 2003, the Council accepted the Library Steering Committee recommendation to authorize a levy on the FY 2004 property tax roll to fund the costs of the project, including annual debt on the bonds. The levy has since been placed on the rolls and property owners in Belmont have begun paying the tax.

Financial Elements

The financial elements of the library project include a sources and uses of funds, bond summary statistics and bond debt service.

Table 1 summarizes the sources and uses of funds.

Table 1	
Par Value of Bonds	\$8,650,000
Accrued Interest	43,169
Premium	2,028,950
Total Uses	\$10,722,119
Project Funds	\$9,400,000
Reserves and Accrued Interest	752,706
Issuance and Other Costs	569,413
Total Sources	\$10,722,119

As structured, the bonds will be sold at a premium. The premium results in an additional \$750,000 in funds for this project. These additional funds will be used to construct a larger facility and provides a hedge against potential cost overruns.

Table 2 summarizes the statistics on the bonds.

Table 2	
Last Maturity	August 1, 2030
Anticipated True Interest Cost	5.19%
Total Debt Service	\$18,820,868
Total Interest	\$10,170,868
Average Annual Debt Service Payment	\$708,370

Table 3 summarizes the bond debt service.

Table 3		
Component	Low	High
Bond Period	02/01/2004	08/01/2030
Bond Size Principal	\$120,000	\$660,000
Coupon Yields	3.775%	6.771%
Semi-Annual Interest Payment	\$22,346	\$335,760
Annual Debt Service Payment	\$455,760	\$709,537

An attribute of Mello-Roos financing is the provision that allows for the early payoff of the lien. Taxpayers will have several opportunities for paying the proportionate bond cost in a single sum. If paid prior to the issuance of the bonds, property owners avoid paying a share of the cost of issuing the bond, i.e. interest sales commission and other costs of a bond sale. If this option is sought, taxpayers will be able to remove the lien from their property and avoid paying future assessments. For reference purposes, approximately 25% of Belmont citizens exercised this

option when the City issued bonds in 1986 to fund storm drain improvements.

Table 4 below shows the estimated early payoff amounts assuming exercise of this option before bond sale. The final calculations are presently underway and taxpayers will be notified via postcard in early December of their ability to payoff their assessment before the bonds are sold.

Table 4	
Residential	\$1,086.17/dwelling unit <i>Debt service component \$576.17; Maintenance component \$510.00</i>
Commercial	\$1.25/sq.ft. <i>Debt service component \$.65; Maintenance component \$.60</i>

If a taxpayer misses this opportunity to prepay, they will have other opportunities in the future to payoff their assessment. Those payoff dates are August 1, 2009, August 1, 2014 and each August 1st thereafter. The amount of payoff will be prorated based on time.

Implementing Resolution

The resolution that requires adoption in order to proceed with the library bond sale includes the following key provisions:

1. Sets the maximum amount of bonds sold to \$8,650,000,
2. Approves the Fiscal Agent and Continuing Disclosure Agreements with the City's Trustee Bank, Bank of New York,
3. Provides for a competitive bond sale and a maximum true interest rate of 7%,
4. Authorizes the financial advisor and/or the bond counsel to take bids,
5. Approves the Preliminary Official Statement on file with the City Clerk, and
6. Authorizes the City Manager and Finance Director to execute the documents necessary to consummate the sale.

Exhibit 1 is the implementing resolution.

The financial advisor and bond counsel will be present at the meeting to answer any additional questions.

City Treasurer and Finance Commission Review:

The City Treasurer has been actively participating in the discussions with the bond team and recommends approval. The Finance Commission will consider the matter at their December 4th meeting. Staff will inform City Council of any concerns raised by the Finance Commission, but none are anticipated.

The City Treasurer and Finance Commission Chair are anticipated to be present at the meeting and are available to answer any additional questions.

Other Considerations

All bond issues involve risk. The most significant risk comes from failure of the tax levy to

generate adequate revenue to pay the debt service on the bonds. Bond buyers will require the City to mitigate this risk by establishing a bond reserve, obtaining insurance or pledging assets. Lastly, there is market risk. Markets change dramatically, including significant fluctuations in interest rates. The bond team has endeavored to limit the City's exposure to this risk by using what it believes to be an appropriate financing strategy for this project.

Follow Up:

1. Revise bond sizing for any prepayments.
2. Accept bids.
3. Close proceeds.

Public Contact:

The meeting has been appropriately noticed.

Fiscal Impact:

Based on an analysis prepared by the financial advisor, the maximum amount of bond issued is \$8,650,000. The bonds will be sold at a premium resulting in net project proceeds of \$9,400,000.

Issuance costs are estimated at 2.3% or \$200,000. This amount is reasonable and is within the average range of 2 to 3%. The amounts are paid from the bond proceeds. An estimate of those costs is shown in Table 5.

Table 5	
Bond Counsel Fees	\$40,000
Financial Advisor Fees	\$33,550
Special Tax Consultant Fees	\$32,050
Trustee Fees	\$3,750
Rating Agency Fees	\$24,000
Fiscal Agent Fees	\$10,000
Printing	\$12,000
District Administration Fees	\$10,000
City Administrative Costs and Other Fees	\$9,650
Contingency	\$25,000

Funding raised from the bond sale was anticipated in the FY 2004 Budget.

Alternatives:

1. Refer the matter back to the bond team and the Finance Commission, for further study. This alternative has the potential of exposing the City to higher interest rates.

Recommendation:

The bond team, City Treasurer and Finance Commission recommend authorization of the attached resolution authorizing the sale of the library bonds.

Attachment:

1. Exhibit 1 – Resolution Authorizing Issuance of Bonds.

Respectfully submitted,

Thomas Fil, Finance Director

Jere Kersnar, City Manager

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